A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Department of Administration

For the Two Fiscal Years Ended June 30, 2018

NOVEMBER 2018

LEGISLATIVE AUDIT
DIVISION

18-13

Legislative Audit Committee

Representatives

Kim Abbott
Kim.Abbott@mtleg.gov

Dan Bartel
Danbartel2@gmail.com

Randy Brodehl
Randybrodehl57@gmail.com

Tom Burnett, Vice Chair
Burnett.tom@gmail.com

Virginia Court
virginiacourt@yahoo.com

Denise Hayman
Denise.Hayman@mtleg.gov

Senators

Dee Brown
senatordee@yahoo.com

Terry Gauthier
Mrmac570@me.com

Bob Keenan
Bob.Keenan@mtleg.gov

Margaret MacDonald
Margie.MacDonald@mtleg.gov

Mary McNally, Chair
McNally4MTLeg@gmail.com

Gene Vuckovich
Gene.Vuckovich@mtleg.gov

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§5-13-202(2), MCA

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Financial-Compliance Audits

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by *Government Auditing Standards*. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2017, was issued March 23, 2018. The Single Audit Report for the two fiscal years ended June 30, 2019, will be issued by March 31, 2020.

Audit Staff

Jeane Carstensen-Garrett
John Fine
Jill Sharp
Shandell VanDonsel
Jennifer Erdahl
Brandon Reese
Karen E. Simpson

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http://leg.mt.gov/audit

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

November 2018

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Administration for the two fiscal years ended June 30, 2018. This report contains seven recommendations to the department, related to compliance with state accounting policy and generally accepted accounting principles, enhancing internal controls, and compliance with law and contract provisions. The report also includes two opinion modifications, related to accounting errors identified during the audit.

The department's written response to the audit recommendations is included in the audit report on page C-1. As noted there, the department does not concur with Recommendation #3. We considered the information the department presented in their written response as part of audit, and maintain our position as reported on page 16. We thank the director and department staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

Room 160 • State Capitol Building • PO Box 201705 • Helena, MT • 59620-1705
Phone (406) 444-3122 • FAX (406) 444-9784 • E-Mail lad@mt.gov

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Appointed and Administrative Officials

Department of Administration

John Lewis, Director

Mike Manion, Deputy Director and Chief Legal Counsel

Cheryl Grey, CPA, Administrator, State Financial Services Division

Russ Katherman, Administrator, Architecture and Engineering Division

Stephen Baiamonte, Administrator, General Services Division

Marilyn Bartlett, CPA, Administrator (through June 2018);
Amy Jenks, Acting Administrator, Health Care and Benefits Division (effective July 2018)

Ron Baldwin, Chief Information Officer (through January 2018);
Tim Bottenfield, Chief Information Officer, State Information Technology Services Division (effective July 2018)

Melanie Griggs Hall, Commissioner, Banking and Financial Institutions Division

Brett Dahl, Administrator, Risk Management and Tort Defense Division

Angela Wong, Director, Montana State Lottery

Anjenette Schafer, Administrator, State Human Resources Division

Dave McAlpin, Chair, Montana Tax Appeal Board

The Public Employees' Retirement Administration, the Teachers' Retirement System, the Office of the State Public Defender, and the Montana State Fund, which are allocated to the department, are audited separately and financial information is not included in the department's financial schedules.

For additional information concerning the Department of Administration, contact:

Mark Bruno, CPA, Office of Finance and Budget Bureau Chief
Department of Administration
P.O. Box 200101
Helena, MT 59620-0101
e-mail: MBruno@mt.gov

Montana Legislative Audit Division

Financial-Compliance Audit

Department of Administration

For the Two Fiscal Years Ended June 30, 2018

November 2018 18-13 Report Summary

The Department of Administration oversaw extensive transfers in fiscal year 2018, as required by Chapter 429, Laws of 2017 (Senate Bill 261) and various bills of the 2017 Legislative Special Session. Due in large part to these bills, transfers-in to the state's General Fund, as presented in the department's financial schedules, increased by approximately $69.2 million from fiscal year 2017 to 2018. Additionally, during the audit period, the department paid approximately $24 million in additional court-ordered settlements for claims against the state related to asbestos in Libby.

Context

The Department of Administration (department) employs over 500 employees and is responsible for providing key services to other state agencies, including those related to: accounting and financial reporting, warrant writing, and state treasury functions; payroll, employee benefits, and human resources; Capitol complex maintenance and the maintenance, construction, and remodeling of state buildings; information systems development and maintenance; insurance and risk management; and statewide leasing, purchasing, and surplus property administration.

During the audit period, the department received approximately $609.0 million and $127.8 million, respectively, in revenues from internal service fund and enterprise fund operations. These revenues account for approximately 75 percent of the department's total revenues for the audit period, and are mainly attributed to charges for services in the internal service funds and Lottery ticket sales in the enterprise fund.

Through the long-range building program, the department expended approximately $115.6 million for building construction costs during the audit period. Other significant financial activity at the department includes $367.9 million in benefit and claims expenditures associated with the State of Montana Benefit Plan, $91.3 million for statutorily-required contributions to the Teachers' Retirement System and Public Employees' Retirement System, and $24 million in court-ordered settlements for claims against the state related to asbestos in Libby. Total expenditures and transfers-out for the audit period were approximately $1.3 billion.

Additionally, as the administrator of the state's General Fund, the department oversees significant transfer activity. During the audit period, the department transferred-out approximately $164.0 million from the General Fund to fund other programs or functions of state government. The department's financial records also reflect a total $91.7 million of transfers-in to the General Fund from other funding sources, including routine transfers from the Lottery operations as well as those required of Senate Bill 261 of the 2017 Legislative Session and various bills of the 2017 Legislative Special Session. Due in large part to these bills, transfers-in to the state's General Fund, as presented in the department's financial schedules, increased by approximately $69.2 million from fiscal year 2017 to 2018.

(continued on back)

Results

The prior audit report contained eight recommendations to the department. The department fully implemented two of these recommendations, and partially implemented five. Additionally, we determined one recommendation related to the Schools and Roads program may no longer be applicable. More information on this recommendation, as well as the five partially-implemented, is included in this report.

The current audit report contains seven recommendations to the department, related to compliance with state accounting policy and generally accepted accounting principles, enhancing internal controls, and compliance with law and contract provisions.

Through our audit work, we identified four instances where the department did not record activity on the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) in accordance with state accounting policy. The errors discussed in the report range from $500,000 to $69.2 million, and two of the errors resulted in opinion modifications on the department's financial schedules included in the report. These modifications mean a reader should use caution when relying on certain information presented in the financial schedules.

We also noted room for improvement in the department's internal controls related to spending against long-range information technology appropriations. Additionally, we identified noncompliance with statutorily-required transfers to support adoption services, as well as a violation of a temporary worker contract.

Recommendation Concurrence	
Concur	6
Partially Concur	0
Do Not Concur	1
Source: Agency audit response included in final report.	

For a complete copy of the report (18-13) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to **lad@mt.gov**; or check the web site at **http://leg.mt.gov/audit**

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Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Montana Department of Administration (department) for the two fiscal years ended June 30, 2018. The objectives of the audit were to:

1. Obtain an understanding of the department's control systems to the extent necessary to support our audit of the department's financial schedules and, if appropriate, make recommendations for improvements in management and internal controls of the department.
2. Determine if the department's financial schedules present fairly the results of operations and changes in fund equity and property held in trust for each of the fiscal years ended June 30, 2018, and 2017.
3. Determine if the department complied with selected state and federal laws and regulations during the audit period.
4. Determine the implementation status of prior audit recommendations.

Our audit efforts focused primarily on the department's activity related to: transfers-in and transfers-out; inter-entity loans issued from the General Fund; Long Range Building Program construction expenditures; lottery revenues and expenses; State of Montana Benefit Plan employer, employee, and retiree contribution revenues and benefit expenses; risk management settlement expenses; personal services expenditures; federal revenues; State Information Technology Services Division charges for services revenues; and local government retirement contribution support. Our work included gaining an understanding of internal controls, performing samples of expenditures and revenues, completing analytic procedures, and reviewing individually significant transactions.

In accordance with §17-8-101(6), MCA, we reviewed the fees charged and the fund equity balances of the department's internal service funds. The results of this testing are discussed beginning on page 8.

As part of the audit, we also performed procedures to determine the reasonableness of the amounts department personnel certified as the unaudited, unassigned ending fund balance of the General Fund, and the unaudited General Fund revenue and transfers-in, for fiscal years 2017 and 2018. These certifications were required by Chapter 429, Laws of 2017 (Senate Bill 261). We determined the certified amounts were reasonable and supported. Additionally, we performed testing over certain fiscal year 2018 transfers required by the 2017 Legislative Special Session. See Table 1 (page 2) for a summary of the bills containing transfer requirements and amounts transferred.

Table 1
2017 Legislative Special Session Transfer Testing Summary

Transfer Description	Special Session Bill	Amount Transferred
Fire Suppression Support from the General Fund	House Bill 3, Section 1 House Bill 6, Section 5 Senate Bill 9, Section 2	$25,309,088
General Fund Support from Various Funds	House Bill 6, Section 1	$2,897,391
	House Bill 6, Section 3	$16,549,710*
	House Bill 6, Section 4	$9,450,000
Guarantee Account Support from School Facility and Technology Account	House Bill 6, Section 1	$3,400,000
General Fund Support from State Auditor	House Bill 6, Section 2	$530,825

Source: Compiled by the Legislative Audit Division.

* See further discussion below.

Section 3.b of House Bill 6 required a $500,000 transfer from the school major maintenance aid account. This account was newly-created by the 2017 Legislative Regular Session, and receives interest earnings from a portion of the coal severance tax trust. The account did not contain $500,000 by the December 15, 2017, deadline in the bill or by fiscal year-end 2018. At fiscal year-end, the $149,710 available in the fund was transferred to the General Fund. Given the full $500,000 was not transferred, the amount in the table above will not agree to the indicated section of House Bill 6.

This report contains seven recommendations, related to compliance with state accounting policy and generally accepted accounting principles, enhancing internal controls, and compliance with law and contract provisions. The report also includes two opinion modifications, related to accounting errors identified during the audit.

Department Organization and Functions

The department provides services to other state agencies in the areas of accounting and financial reporting, payroll and employee benefits, warrant writing, Capitol complex maintenance, state treasury services, insurance and risk management, information systems development, construction and remodeling of state buildings, human resources, purchasing, statewide leasing, and surplus property administration. The department is organized into eight divisions under the Director's Office. Activity related to the Montana State Lottery and Montana Tax Appeal Board are reported in the department's financial information.

The following paragraphs describe the department's primary functions and list the authorized full-time equivalent (FTE) positions for fiscal year 2018.

Office of the Director (30.01 FTE): Responsible for the overall supervision and coordination of department programs and allocated boards and agencies. The office also provides management support (accounting, budgeting, payroll, personnel management, and legal services) to the department and supports the Board of Examiners.

State Financial Services Division (60.25 FTE): The State Financial Services Division performs many centralized functions and administers state and federal programs to state agencies, local government entities, and Montana citizens and businesses. The division consists of four bureaus and the State Social Security Administrator. The division prepares and publishes the state's Comprehensive Annual Financial Report (CAFR), maintains a statewide accounting structure with related policies and procedures, processes all state agency payments, and performs bank reconciliations. The division provides system support of the state's enterprise accounting and budgeting systems as well as the Montana Acquisition and Contracting System (eMACS). The division is responsible for administering–including providing technical assistance and training–the State Procurement Act, Montana Single Audit act, the state's procurement card programs, and the State Social Security Program.

Architecture and Engineering (A&E) Division (16.50 FTE): Assists agencies and citizens of Montana in the design and construction of facilities, repairs and alterations of existing facilities, and planning for governmental and university system needs. The Long-Range Building Program (LRBP) is administered by A&E. It provides funding for construction, alteration, repair, and maintenance of state-owned buildings and grounds. The LRBP activity is shown in the Corrections, Departments & Agencies, DPHHS, and University System programs listed on the Schedule of Expenditures.

Banking and Financial Institutions Division (34.00 FTE): Regulates many of the state's banks and financial institutions to provide Montanans with a system of state chartered financial institutions.

General Services Division (72.35 FTE): Manages facilities' operations, security, grounds, and maintenance for the Capitol Complex (approximately 40 state-owned buildings within a ten-mile radius of Helena); manages building leases for state agencies throughout the state; provides centralized mail services to state agencies located in the Helena area; provides centralized printing design, development, and distribution for state agencies; manages surplus property and recycling; and manages the Federal Surplus Program for government agencies within Montana.

Health Care and Benefits Division (20.87 FTE): Manages the State of Montana Benefit Plan (State Plan) which provides benefits to state of Montana employees, retirees, legislators, survivors, and their covered dependents. The State Plan provides group medical, dental, prescription drug, and vision benefits through self-funded vendor contracts with Third Party Administrators (TPAs). The State Plan offers fully insured life insurance and long-term disability insurance. HCBD is also responsible for administering the State Plan's flexible spending accounts (FSAs), the state of Montana's direct grant and sick leave funds, and the State of Montana Voluntary Employees Beneficiary Association Health Reimbursement Arrangement (Montana VEBA HRA). HCBD's Workers' Compensation Management Bureau performs workers' compensation oversight via its workplace safety and return to work programs.

State Information Technology Services Division (180.49 FTE): SITSD establishes and enforces statewide information technology policies and standards and provides disaster recovery capabilities. It implements shared information technology platforms and services such as the state network, state data centers, servers and storage, and enterprise custom and commercial applications.

Risk Management and Tort Defense (17.00 FTE): Provides loss prevention services, insurance coverage, claims adjudication, and tort litigation representation to state agencies, universities, boards, councils, and commissions that serve the citizens of Montana. It evaluates and resolves property/casualty claims including auto, aviation, property, and tort liability. Settlements, legal fees, and other expenses are paid from the state self-insurance fund.

State Human Resources Division (41.00 FTE): Provides state agencies with human resource management services including training, position classification and pay, and employee relations. Additionally, the division publishes state rules, standards, and policies relating to recruitment and selection, discipline, grievances, performance appraisals, leave, and other HR matters. The division administers the state's human resources modules within the Statewide Accounting, Budgeting, and Human Resources System (SABHRS), supplying payroll and other human resource information systems for state government.

Montana State Lottery (31.50 FTE): The Montana Lottery is operated by a five-member commission that has the power to operate a state lottery, determine the types and forms of lottery games, set the ticket price, number and size of prizes, conduct lottery drawings, enter into agreements to offer lottery games in conjunction with other lottery states and countries, and prepare financial reports. The Montana Lottery is allocated to the department for administrative purposes. As required by law,

the Legislative Audit Division performs biennial audits of lottery security, and annual audits of the Lottery's financial activity.

Montana Tax Appeal Board (5.50 FTE): The board is a court of fact whose work is mandated by Article VIII, Section 7 of the Montana Constitution "to provide independent appeal procedures for taxpayer grievances about appraisals, assessments, equalization, and taxes." The board resolves tax appeals concerning real and personal property, income, corporate, natural resource, centrally assessed property, and new industry taxes. The three-member board and its staff are administratively attached to the department.

Prior Audit Recommendations

The prior audit report for the two fiscal years ended June 30, 2016, contained eight recommendations to the department. The department fully implemented two recommendations. One recommendation related to complying with state law by not processing transactions to funds with negative cash balances and the other related to enhancing internal controls over and complying with requirements of the Cash Management Improvement Act. Additionally, the department partially implemented five recommendations, and we determined one recommendation related to the Schools and Roads program may no longer be applicable. More information on these recommendations is included below.

In addition, the prior audit report also outlined four recommendations from the audit report for the two fiscal years ended June 30, 2014, that were not fully implemented. One of these recommendations is related to subrecipient monitoring, and is discussed below. We determined the department fully implemented the remaining three recommendations.

Internal Service Funds
(16-13 Recommendation #2):
We recommended the department adjust rates to ensure fees were commensurate with costs for several of its internal service funds, as required by state law. As discussed in greater detail on page 8, we performed an analysis of the department's internal service fund fees and fund equity balances for fiscal years 2017 and 2018 as part of the current audit. Through this work, we identified multiple funds with either fees not commensurate with costs or for which fund equity balances were not reasonable. However, we also determined the department has procedures in place to monitor the fees charged, working capital, and fund equity balances of its internal service funds, and has taken steps to address noncompliance identified during the audit period, as summarized on page 8. As such, we consider the recommendation to be partially

implemented, and make no further recommendation to the department at this time. We will test the reasonableness of the fees charged and fund equity balances of all of the department's internal service funds in the next audit of the department.

Internal Controls to Obtain and Review Support From Other Agencies (16-13 Recommendation #3):

We recommended the department improve internal controls by obtaining and reviewing supporting documentation from other agencies related to deposits, transfers, and disbursements. As part of the current audit, we determined the department obtained and reviewed support from other agencies for several of the financial activities discussed in the prior audit report. We consider the recommendation to be fully implemented for activity other than fire suppression fund transfers.

Section 76-13-150(10), MCA, prohibited the state treasurer from making fire suppression fund transfers for the fiscal year ending June 30, 2017. Given no such transfers were made, the department has not had the opportunity to demonstrate implementation of this portion of the recommendation. Follow-up on this portion of the recommendation will be completed in the next financial-compliance audit of the department. We make no further recommendation to the department at this time.

Subrecipient Monitoring (16-13 Recommendation #4 and 14-13 Recommendation #12):

We recommended the department implement internal controls and comply with federal regulations related to subrecipient monitoring for the Schools and Roads - Grants to States (Schools and Roads) program. Through this program, the state receives funds from the United States Department of Agriculture's Forest Service function, and passes them along to various counties in the state.

The recommendations in prior audits resulted from federal compliance testing performed in support of the state's Single Audit. In the current audit, we noted conflicting information from the federal government regarding whether the payments to states under the Schools and Roads program are classified as direct payments or federal financial assistance. Federal financial assistance received by the state is subject to Single Audit requirements, but direct payments are not.

Given the conflicting information, we contacted the USDA Single Audit Coordinator as well as program staff at the Forest Service. Based on these inquiries, the Forest Service is aware of the conflicting guidance, and anticipates clarifying available information to consistently describe the payments to states under the program as direct payments. Because of this, we are deferring further follow-up on this recommendation to the Single Audit for the two fiscal years ended June 30, 2019.

Internal Controls Related to Long Range IT Projects

(16-13 Recommendation #5):

We recommended the department follow established internal control procedures to ensure money appropriated for long-range IT (LRIT) capital projects was spent only on approved projects. As part of the current audit, we reviewed the changes the department made in response to this recommendation. We determined the department's chief information officer regularly reported on the status of LRIT projects to the Legislative Finance Committee during the audit period. To facilitate this reporting, the department tracks the LRIT funded projects and summarizes the amount of expenditures charged to the funding. However, this tracking and reporting process does not include steps to review the expenditures charged to the funding, to ensure they are for the intended purpose of the legislature. Because there is evidence the department took steps to address this recommendation, we consider it to be partially implemented. However, given the amount of funding currently still existing for LRIT projects, we believe it is important the department take further steps to improve internal controls over spending against this funding. See the Information Technology Capital Projects section on page 19 for more information on the issue and our continued recommendation for the current audit period.

Internal Controls Over Recording Construction Work in Process

(16-13 Recommendation #6):

We recommended the department: 1) implement internal control procedures to ensure that all capital projects and related costs were included in Construction Work in Progress (CWIP) entries; and 2) record software enhancements and account for CWIP entries in accordance with state accounting policy. As part of the current audit, we reviewed the changes the department made in response to this recommendation. The department updated internal procedures related to recording CWIP, and based on our review, recorded CWIP correctly in accordance with state accounting policy for tangible assets, such as buildings. However, we noted a continued need for improvement in recording CWIP for intangible assets, such as software enhancements. While the recommendation is not fully implemented, there is evidence the department took steps to improve controls and properly recorded CWIP for a majority of its assets. Therefore, we make no further recommendation at this time. Follow-up on the portion of this recommendation related to intangible assets will be completed in the next financial-compliance audit of the department.

State Compliance

(16-13 Recommendation #8):

We recommended the department comply with state law by: 1) submitting fees to the State Auditor's Office by March 1st of each year; and 2) disbursing the amount

determined by state law to wireless providers to reimburse the unpaid balances carried over by 9-1-1 wireless providers within 45 days of fiscal year-end. As part of the current audit, we reviewed the timing of the payments and disbursements required by these laws, in relation to the deadlines established in the laws. Through this work, we determined:

- The 9-1-1 disbursements were not made timely in fiscal year 2017, but were made timely in fiscal year 2018.
- The fees payable to the State Auditor were paid timely in fiscal year 2017, but not in fiscal year 2018.

Because not all the payments were made timely, we consider the recommendation to be partially implemented. However, given the department did comply with the requirements for a portion of the audit period, and because the law requiring the 9-1-1 disbursements was repealed during the 2017 Legislative Regular Session, we make no further recommendation to the department.

Internal Service Funds

In accordance with §17-8-101(6), MCA, we reviewed the reasonableness of fees charged and fund equity balances in the department's internal service funds. The internal service fund type is used to account for the financing of goods or services provided by one department to other departments of state government or to other governmental entities on a cost reimbursement basis. The department maintains 12 internal service funds to account for services provided both internally and externally to the department.

In our analysis, we generally considered fees to be reasonable and commensurate with costs if a fund's working capital was positive and did not exceed 60 days of expense activity for the fund. The only exception to this was for the State Information Technology Services Division fund. For this fund, the legislature allows a 30-day working capital, so we used 30 days instead of 60 in our analysis. State accounting policy defines working capital as the amount of cash that would remain if all the current assets were converted, and all the current liabilities paid, at their book value. We considered fund equity to be reasonable if, once adjusted for non-cash liabilities for pension and Other Post Employment Benefits, the fund equity balance not associated with capitalized assets was positive and did not exceed 60 days of working capital.

In the past three financial-compliance audit reports, we have reported either fees were not commensurate with costs or fund equity balances were not reasonable in at least four of the department's internal service funds. In this audit, we reviewed all the department's internal service funds, and determined fees were not commensurate with

costs or fund equity was not reasonable for several funds during the audit period, as discussed below.

Statewide Accounting, Budgeting, and Human Resources System:
This fund provides for the financial and budgeting portion of the Statewide Accounting, Budgeting, and Human Resources System. Working capital was 105 days at fiscal year-end 2017 and 113 days at fiscal year-end 2018. Accordingly, fees were not commensurate with costs for either year. Additionally, the portion of fund equity not associated with capital assets exceeded 60 days of working capital for both fiscal years. As such, we do not consider fund equity to be reasonable for fiscal year 2017 or fiscal year 2018.

State Information Technology Services Division:
This fund manages information technology services for state government. Working capital at fiscal year-end 2017 was positive and less than 30 days, so we consider fees to be commensurate with costs for that year. Working capital was negative at fiscal year-end 2018, and revenue collections were not sufficient to cover recorded expenses during the year. Accordingly, we consider fees to not be commensurate with costs for fiscal year 2018. Given the 2017 Legislative Special Session reduced SITSD appropriations at agencies, this condition was expected. Additionally, the fund did not have enough working fund equity to cover its investment in capital assets at either fiscal year-end 2017 or 2018. As such, we do not consider fund equity to be reasonable for fiscal year 2017 or fiscal year 2018.

Intergovernmental Training:
This fund provides a variety of training products and facilitation services to state agencies. The fund had positive working capital that did not exceed 60 days at either fiscal year-end 2017 or fiscal year-end 2018. Accordingly, we consider fees to be commensurate with costs. However, the fund reported negative fund equity in both years, indicating resources in the fund are not adequate to meet its obligations. As such, we do not consider fund equity to be reasonable for fiscal year 2017 or fiscal year 2018.

Management Services:
This fund provides centralized budget preparation, submission, and monitoring procedures for the department. The fund also provides for centralized legal and human resources services for the department. Working capital was 84 days at fiscal year-end 2017 and 75 days at fiscal year-end 2018. Accordingly, fees were not commensurate with costs in either year. The fund equity balance at fiscal year-end 2017 is positive, and approximates 60 days of working capital. The fund equity balance at fiscal year-end

2018 is positive, and within 60 days of working capital. As such, we consider fund equity to be reasonable in fiscal year 2017 and fiscal year 2018.

Human Resources Information Services:
This fund provides services for the human resources portion of SABHRS and for preparation and distribution of payroll and associated withholding and deductions of state employees. Working capital was negative at fiscal year-end 2017, and revenue collections did not cover recorded expenses during the year. Additionally, the fund reported negative fund equity at fiscal year-end 2017, indicating the resources in the fund are not adequate to meet its obligations. As such, we do not consider fees to be commensurate with costs or fund equity to be reasonable for fiscal year 2017. Working capital was positive at fiscal year-end 2018, and the fund equity balance at fiscal year-end 2018 is positive, and within 60 days of working capital. Accordingly, we consider fees to be commensurate with costs and fund equity to be reasonable for fiscal year 2018.

Warrant Writing:
This fund provides the warrant writer program to most state agencies for check writing and automatic deposit capabilities. Working capital was 146 days at fiscal year-end 2017, and 129 days at fiscal year-end 2018. Accordingly, fees were not commensurate with costs in either year. Additionally, the portion of fund equity not associated with capital assets exceeded 60 days of working capital for both fiscal years. As such, we do not consider fund equity to be reasonable for fiscal year 2017 or fiscal year 2018.

Workers Compensation Management Program:
This fund provides a way to manage and reduce the state's workers' compensation injuries and premiums. Working capital was 109 days at fiscal year-end 2017, and the fund equity balance exceeded 60 days of working capital. As such, fees were not commensurate with costs and fund equity was not reasonable for fiscal year 2017. Working capital was less than 60 days fiscal year-end 2018, and the fund equity balance at fiscal year-end 2018 is positive, and within 60 days of working capital. Accordingly, we consider fees to be commensurate with costs and fund equity to be reasonable for fiscal year 2018.

Summary
As part of the audit, for each of the funds discussed above, we gained an understanding of the steps the department has in place to monitor the expenditures and revenues of the fund. We evaluated information the department provided regarding the steps they have taken to correct the unreasonable fees or fund equity balance trends in the funds. Examples include adjusting rates through the appropriations process and

managing expenditure activity in the funds. Through this work, we confirmed there was evidence the department has taken steps to monitor the funds and adjust rates. Because of this, we make no recommendation to the department currently. The next financial-compliance audit of the department will determine the reasonableness of fees charged and fund equity balances in the department's internal service funds for fiscal years 2019 and 2020, as required by state law.

Chapter II – Findings and Recommendations

Accounting Errors

State law requires the Department of Administration (department) to record its financial activity in accordance with Generally Accepted Accounting Principles (GAAP). To facilitate compliance with GAAP, the department has issued state accounting policies for all agencies to follow. Through our audit work, we identified instances where the department did not record activity on the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) in accordance with state accounting policy. More details on these accounting errors are presented in the following four report sections.

Property Held in Trust Overstatements

The department recorded journal entries associated with central payroll processes in the incorrect fiscal year.

The department centrally administers payroll for all state agencies, excluding the University System. State employees are paid biweekly, through processes initiated at each agency and finalized by the department. The department uses an agency fund in SABHRS as the payroll clearing account, and the activity recorded in this fund is presented as additions and reductions to property held in trust on the department's Schedule of Changes in Fund Equity & Property Held in Trust.

As illustrated in Table 2 below, for both calendar years 2017 and 2018, biweekly payroll dates for the last pay period in June fell close to the 4th of July holiday.

Table 2
Direct Deposit Payroll Information
Calendar Years 2017 and 2018

Pay Period End Date	Direct Deposit Journal Initiated	Payroll Date
June 23, 2017	June 30, 2017 (FY2017)	July 5, 2017 (FY2018)
June 22, 2018	June 29, 2018 (FY2018)	July 3, 2018 (FY2019)

Source: Compiled by the Legislative Audit Division from SABHRS.

Because of the holiday, department personnel started certain payroll processes earlier than normal, including the journal entries in SABHRS for employee direct deposits. The direct deposit journal entries were initiated in June, to ensure employees were paid timely in early July.

Since the direct deposit journal entries were created in June, the default fiscal year on the journals was the current year. However, given the employees were not paid until July, the journal entries should have been recorded in SABHRS in the next fiscal year. The department realized the initial journal entries were made to the incorrect fiscal year, and posted a series of correcting entries in SABHRS each year in an attempt to record the activity in the correct fiscal year. Due to how the financial schedules are compiled, these correcting entries are captured in the total reported additions and reductions to property held in trust.

We reviewed the department's correcting entries, and noted the following:

- **July 5, 2017 Payroll**

  The department posted multiple correcting entries that moved the recorded activity from fiscal year 2017 to fiscal year 2018, as intended. These entries resulted in the appearance of approximately $47.4 million, or 5 percent, more activity flowing through the agency fund than actually occurred, but had no effect on the ending property held in trust balance in the department's agency fund as of June 30, 2017. As a result, ending property held in trust is not misstated.

- **July 3, 2018 Payroll**

  The department posted multiple correcting entries that were intended to, but did not, move the recorded activity from fiscal year 2018 to fiscal year 2019. These entries resulted in the appearance of approximately $69.2 million, or 7 percent, more additions and $51.9 million, or 5 percent, more reductions flowing through the agency fund than actually occurred, as well as an approximate $17.3 million overstatement in the ending property held in trust in the department's agency fund as of June 30, 2018. This overstatement of the June 30 balance is the basis for our modified opinion on the department's Schedule of Changes in Fund Equity and Property Held in Trust for the fiscal year ended June 30, 2018, as outlined on page A-2.

We consider the cause of the accounting errors outlined above to be human error. To ensure the department's financial schedules accurately report activity in the agency fund in the future, the department should record payroll activity in the correct fiscal year.

Recommendation #1

We recommend the Department of Administration record additions and reductions to property held in trust associated with central payroll in the correct fiscal year.

Risk Management Liabilities

The department did not record an expenditure accrual for court-ordered asbestos settlements in fiscal year 2017, resulting in an approximate $10 million misstatement.

The department's Risk Management and Tort Defense (RMTD) Division provides centralized loss prevention services, insurance coverage, claims adjudication, and tort litigation for state agencies and the university system. In this role, RMTD makes payments for various claims against the state, including settlements for litigation related to asbestos in the Libby area. In fiscal year 2017, two such settlements, totaling approximately $24.2 million, were ordered by the Eighth Judicial District Court, Cascade County. These settlements required the department to make payments at various times in fiscal years 2017 and 2018.

We reviewed the department's accounting for these settlement payments, and noted the department issued approximately $14.2 million of payments for the settlements in fiscal year 2017, and issued payments for the remaining $10 million in fiscal year 2018. The payments were recorded as expenses in the year issued. However, under state accounting policy, in full accrual funds such as the one used to make the payments, an expense should be recognized as soon as the related liability is incurred, regardless of the timing of the related cash flows. As a result, expenditures and liabilities are understated by approximately $10 million on the department's accounting records for fiscal year 2017. This understatement is the basis for our modified opinion on the department's Schedule of Changes in Fund Equity and Property Held in Trust for the fiscal year ended June 30, 2017, as outlined on page A-2.

The department agrees there should have been an expenditure accrual in fiscal year 2017. Department personnel indicated the structure of the settlement agreements, which allowed for partial payments upfront and deferral of the final payments to a subsequent fiscal year, was unlike historic settlement structures. As such, they overlooked the need to record an expenditure accrual for amounts not paid in the year the settlements were reached.

Recommendation #2

We recommend the Department of Administration comply with state accounting policy by recording expenditure accruals for the Risk Management and Tort Defense Division for settlements unpaid at year-end.

State Employee Benefit Plan Wellness Incentive Discounts

The department's accounting records reflect approximately $3.4 million in revenues and expenses for the State of Montana Benefit Plan that should not have been recorded in both fiscal years 2017 and 2018.

The department's Health Care and Benefits Division (HCBD) manages the State of Montana Benefit Plan (State Plan), which is the state's self-funded medical, dental, prescription, and vision benefit programs for state employees, retirees, legislators, and their covered dependents or surviving dependents. In an effort to encourage plan members to take an active interest in maintaining and improving their health, and to ultimately lower claim expenses, the State Plan offers a wellness incentive program. During the audit period, this incentive program came in the form of discounted contribution rates. Under the program, participants who complete activities required by HCBD are eligible for a discounted, or lower, monthly contribution rate. This program essentially creates a dual rate structure for the State Plan.

During the audit period, in order to qualify for the discounted rate, plan participants had to complete the required activities by the October 31 preceding the rate year. For example, to be eligible for the lower rate in calendar year 2018, a plan participant had to complete, and report having completed, the required activities by October 31, 2017. Under this timeline, HCBD knew in advance of billing for the rate year whether participants qualified for the discounted rate. For those who did qualify, HCBD billed and collected at the lower rate. HCBD had no expectation of collecting anything other than the amounts ultimately billed for these participants, and accordingly, should have recorded revenues throughout the year only to the extent that contributions were actually billed. This revenue recognition process is outlined in state accounting policy, which indicates revenues should only be recognized when they are realizable, or probable to be collected.

However, in addition to recording revenues for the billed contributions, HCBD also made journal entries in SABHRS to record expenses and revenues for the difference between what was collected at the lower rates and what would have been collected had the discount program not been offered. HCBD personnel indicated they believe these journal entries were necessary because offering the wellness incentive program comes at a cost to the State Plan. Personnel stated that in the interest of full transparency, and to ensure the incentive program goes through the budget and appropriation process, there should be an expense on SABHRS associated with the program. They believe offering the incentive program in the form of a contribution discount is a convenience to the State Plan, and consider revenues to be realizable and earned at the same time the contribution discount is paid as a benefit to participants.

We considered this information as part of the audit, and do not agree with the department's position. The second set of journal entries recorded the same activity as both an expense and a revenue of the division, and are not supported by GAAP or state accounting policy requirements. The department had no expectation of billing or collecting payments associated with the amount of the contribution discount, and therefore, should not have recognized revenue under state accounting policy. Additionally, while we agree there is an opportunity cost of offering the lower rates, and that information on this cost is relevant to decision makers, this cost is not an accounting expense under GAAP. Further, the HCBD accounting records already reflect costs associated with the incentive program. For example, plan participants must complete a health screening to quality for the discounted rate. The State Plan pays for these screenings, and the costs associated with them are already reflected on SABHRS through payments to the contractor completing the screenings.

As a result of the second set of monthly entries, the HCBD revenues and expenditures are overstated by approximately $3.4 million in each fiscal year 2017 and 2018. To comply with state accounting policy and GAAP, HCBD should not record revenues and expenses on SABHRS for the forgone collections of the State Plan, related to offering discounted contribution rates.

Recommendation #3

We recommend the Department of Administration comply with state accounting policy and generally accepted accounting principles by not recording revenues and expenses for contribution discounts at Health Care and Benefits Division.

Expenditure Misclassifications

The department incorrectly reclassified approximately $1.66 million of its operating and personal services costs as capitalizable intangible asset expenditures in fiscal year 2017.

The Department of Revenue (DoR) uses the GenTax computer system to maintain taxpayer records and process tax revenues. The funding for the original system was appropriated to the Department of Administration's (department) capital project fund in 2003, and accordingly, the department reports the system asset on its accounting records in SABHRS. In fiscal year 2017, however, the DoR incurred approximately $1.66 million in personal services and operating expenses associated with an upgrade

to the GenTax system. These expenses were charged against funds appropriated to the DoR. The costs of the upgrade add value to the system, and therefore, must be capitalized under state accounting policy.

Because the department capitalized the original system asset, when the upgrade was completed in fiscal year 2017, the department also recorded entries in SABHRS to capitalize the costs associated with the upgrade. One of these entries reclassified the $1.66 million of underlying expenditures from personal services and operating accounts into a capitalizable intangible asset account, as required by state accounting policy. However, given the costs associated with the upgrade were not initially recorded on the department's accounting records, the reclassification journal entry should not have been made by the department. Rather, the costs associated with the upgrade were paid by the DoR, and the SABHRS journal entry to re-classify the expenditures to capitalize the costs should have been on the DoR's accounting records. This requirement is established in state accounting policy, which indicates the capitalizable expenditure cost should be recorded in the fund that purchased the asset.

As result, the Salaries, Other Services, and Intangible Asset expenditure amounts presented in the Director's Office column of the Schedule of Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2017, as presented on page A-8, are misstated. The personal services and operating expenditures are understated by $1,162,622 and $500,000, respectively, and intangible asset expenditures are overstated by $1,662,622.

Additionally, the reclassification entry caused the General Fund personal services and operating expenditures recorded in SABHRS for the Director's Office to be negative. See Table 3 for a summary of the errors in the underling SABHRS records, that cause the errors on the Schedule of Expenditures discussed above.

Table 3

Errors in Director's Office General Fund Expenditures in Fiscal Year 2017

	Actual Recorded Expenditures*	Over (Under) Statement	Correct Amount
Personal Services	($812,631)	($1,162,622)	$349,991
Operating	($253,159)	($500,000)	$246,840
Intangible Assets	$1,662,662	$1,662,622	$0

Source: Compiled by the Legislative Audit Division from SABHRS.

*The amounts reported in the table are a combination of House Bill 2 budgeted expenditures and the expenditures recorded in error.

To ensure the department's accounting records reflected the results of department operations, the department should not capitalize costs it has not incurred. The corresponding errors on the DoR accounting records are addressed in the #18-14 DoR report, Recommendation #3. The errors at the department and DoR net to $0, so there was no impact on the State's Basic Financial Statements presented in the 2017 Comprehensive Annual Financial Report.

RECOMMENDATION #4

We recommend the Department of Administration comply with state policy by reclassifying expenditures as part of capitalizing of an asset only when the costs of acquiring the asset are on the department's accounting records.

Information Technology Capital Projects

The department does not ensure expenditures charged against appropriations for long-range information technology projects are for the intended purpose of the appropriations.

The prior audit included a recommendation for the department to ensure money appropriated for Long-Range Information Technology (LRIT) capital projects is spent only on approved projects. As part of the audit, we followed up on this recommendation and found the department took some steps to address the recommendation, but has a continued need to enhance internal controls.

Chapter 383, Laws of 2013, and Chapter 448, Laws of 2015, appropriated $14.7 million and $34.5 million, respectively, for LRIT capital projects to the department. The department was appropriated these funds to be used for the sole purpose of the projects identified by the legislature and outlined in laws. Portions of these projects were for department divisions, and portions of the projects were for state agencies external to the department. For projects at other agencies, the department transferred the appropriation authority to the respective state agency, allowing the agency to begin incurring and charging costs for the project.

After transferring the appropriation authority, the department performs some high-level monitoring of the status of the projects and tracking of the costs charged to the projects. We noted the department made quarterly presentations to the Legislative Finance Committee, detailing the status of the projects, their original cost estimates,

and cost estimates going forward. However, the department does not have procedures in place to verify the expenditures charged against the appropriations by other agencies are for costs of the projects approved by the legislature. Without such procedures, there is risk inappropriate expenditures will be charged against the appropriations.

Table 4 below lists the appropriated projects, the agencies for which the projects relate, the amount appropriated, and the amount spent as of June 30, 2018.

Table 4
Information Technology Capital Projects

Department	Program	Amount Appropriated	Amount Spent as of 6/30/18
Department of Administration	Public Safety Communications System Maintenance and Operations	$3,000,000	$2,247,494
	Computerized Maintenance Management System	$350,000	$0
	Statewide Data Protection/ Electronic Records Management	$3,000,000	$3,000,000
	Statewide Information Technology Projects	$6,466,000	$5,537,650
Commissioner of Political Practices	Campaign Reporting Service / Database Rewrite	$502,400	$481,342
Department of Environmental Quality	Remediation Information Management System	$1,800,000	$1,515,387
Department of Public Health and Human Services	Enhanced Federal Financial Participation and A-87 Cost Allocation Waiver	$20,000,000	$16,560,507
Department of Transportation	Maintenance Management System	$2,000,000	$2,000,000
	PPMS, Risk-Based Management, Linear Referencing System	$5,000,000	$154,495
	Financial Management Suite	$3,000,000	$0
Secretary of State	Information Management System	$4,078,385	$3,581,015
Total		**$49,196,785**	**$35,077,891**

Source: Compiled by Legislative Audit Division from SABHRS, Chapter 383, Laws 2013, and Chapter 448, Laws 2015.

Department personnel indicated they misunderstood the recommendation from the prior audit report, indicating they believed it was a recommendation for LRIT projects appropriated in the future. Given this misunderstanding, and that there were no LRIT

capital project appropriations from the 2017 Legislative Regular and Special Sessions, the department did not implement procedures to more closely review and monitor expenditures charged against projects.

Of the $35.1 million of expenditures charged to appropriations for projects in Table 4 above, approximately $27.4 million were expenditures of the current audit period. Moving into fiscal year 2019, approximately $14 million in authority remained for these projects. To ensure costs are incurred only for intended projects, the department should implement additional internal control procedures to more closely monitor costs charged to the appropriations.

Recommendation #5

We recommend the Department of Administration enhance internal control procedures to ensure money appropriated for long-range information technology capital projects is spent only on approved projects.

Noncompliance With State Law and Contract Provisions

The department's operations are governed by statutes in various titles of the Montana Code Annotated (MCA). As part of the audit, we completed testing over the department's compliance with a selection of these statutes. Through this work, and other work on the audit, we identified various instances of noncompliance, including the two discussed in further detail below.

Adoption Services Account Transfer

The department transferred $105,529 less to the Adoption Services account from the General Fund than required by statute from fiscal years 2017 and 2018.

Section 15-1-122(1), MCA, requires an annual transfer from the General Fund to the Adoption Services Account established in §42-2-105, MCA. Funds in this account are statutorily appropriated to the Department of Public Health and Human services, and can be used for expenditures incurred for adoption services. Section 15-1-122, MCA, establishes a base transfer amount and stipulates a 10 percent increase in the transfer for each subsequent fiscal year. The current base transfer amount is $59,209, as set by 2009 Legislative Session, and has been in effect since fiscal year 2010.

Department personnel indicated for the 2011, 2013, 2015, and 2017 biennia, they mistakenly believed the base amount in law was re-set by the legislature during each session. As a result, the department transferred the $59,209 base amount in the first year of the biennium, and increased it by 10 percent in the next year. Table 5 includes the required and actual transfers made for fiscal years 2010 – 2016, as well as the deficit between required and actual transfers for the same time period.

Table 5

Adoption Services Account Required and Actual Transfers

Fiscal Years 2010 through 2016

Fiscal Year	Required Transfer	Actual Transfer	Transfer Deficit
2010	$ 59,209	$ 59,209	$ -
2011	$ 65,130	$ 65,130	$ -
2012	$ 71,643	$ 59,209	$ 12,434
2013	$ 78,807	$ 65,130	$ 13,677
2014	$ 86,688	$ 59,209	$ 27,479
2015	$ 95,357	$ 65,130	$ 30,227
2016	$ 104,892	$ 59,209	$ 45,683
Total	**$ 561,726**	**$ 432,226**	**$129,500**

Source: Compiled by Legislative Audit Division from department records.

Personnel discovered their error during fiscal year 2016, calculated the amount that should have been transferred had they not re-set the base amount each biennium, and transferred the difference of approximately $129,500 to the Adoption Services account to correct the errors for fiscal years 2012-2016.

However, at that time, the department did not update the spreadsheet used to calculate the transfer amounts for the 2017 biennium, to reflect the correct amount of the transfer for fiscal year 2016. As a result, the transfer amount for fiscal year 2017 was incorrect, which also caused errors in the calculated transfer amounts for the 2019 biennium. Table 6 includes the required and actual transfers made for fiscal years 2017 and 2018, as well as the deficit between required and actual transfers for the same time period.

Table 6

Adoption Services Account Required and Actual Transfers

Fiscal Years 2017 and 2018

Fiscal Year	Required Transfer	Actual Transfer	Transfer Deficit
2017	$ 115,382	$ 65,130	$ 50,252
2018	$ 126,920	$ 71,643	$ 55,277
Total	**$ 242,302**	**$ 136,773**	**$ 105,529**

Source: Compiled by Legislative Audit Division from department records.

The department was not aware of these errors until we identified them as part of the audit. In total, for fiscal years 2017 and 2018, the department transferred $105,529 less than what should have been transferred to the Adoption Services account as a result of these errors. To ensure the correct amounts are transferred in the future, the department should update its spreadsheet to reflect the correct beginning transfer amounts. Additionally, the department should transfer $105,529 to the Adoption Services account for the fiscal year 2017 and 2018 transfer deficits described above.

Recommendation #6

We recommend the Department of Administration comply with §15-1-122(1), MCA, by:

A. *Updating the spreadsheet used to calculate the amount of the annual transfer from the General Fund to the Adoption Services Account.*

B. *Transferring $105,529 from the General Fund to the Adoption Services Account to correct the error in the transfers for fiscal years 2017 and 2018.*

Violation of Temporary Worker Term Contract Provisions

The department violated term contract provisions when services of a temporary worker were maintained beyond the time allowed.

The department's State Procurement Bureau negotiates a variety of contracts state agencies may use to procure goods and services. These contracts are commonly referred to as term contracts, and are available for a variety of goods and services, including the services of temporary workers. During the audit period, five of the department's divisions used a temporary worker term contract to hire temporary help. We reviewed the hours worked by temporary workers in two of these five divisions, and identified one instance of noncompliance with the underlying term contract, described in greater detail below.

In fiscal year 2018, the department's General Services Division (GSD) retained the services of a temporary worker through a term contract with a personnel firm. The term contract specifies services may be provided for a maximum of 480 hours, and notes state agencies should use the modified full-time employee process for temporary employment requiring longer terms. Based on our review of department records, the temporary worker provided over 750 hours of service, or approximately 270 hours

more than allowed under contract. We estimate the department paid approximately $4,500 for the excess hours.

When asked, GSD personnel stated they were aware the number of hours worked by the temporary employee exceeded the maximum allowed in the contract. Personnel indicated they needed the services of a temporary worker to help with a new service the division began offering in December 2017. When personnel realized the workload required by the new service, they advertised a new position but did not terminate the temporary employee until the position was filled. Department management acknowledged the noncompliance, and indicated they anticipate establishing additional internal controls to centrally monitor use of temporary employees, to ensure compliance with temporary worker contract provisions in the future.

Recommendation #7

We recommend the Department of Administration comply with term contract provisions for temporary employees.

Independent Auditor's Report and Department Financial Schedules

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Schedules of Changes in Fund Equity & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Administration for each of the fiscal years ended June 30, 2018, and 2017, and the related notes to the financial schedules.

Management's Responsibility for the Financial Schedules

Management is responsible for the preparation and fair presentation of these financial schedules in accordance with the regulatory format prescribed by the Legislative Audit Committee, based on the transactions posted to the state's accounting system without adjustment; this responsibility includes recording transactions in accordance with state accounting policy; and designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the department's preparation and fair presentation of the financial schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness

Room 160 • State Capitol Building • PO Box 201705 • Helena, MT • 59620-1705
Phone (406) 444-3122 • FAX (406) 444-9784 • E-Mail lad@mt.gov

of significant accounting estimates made by management, as well as the overall presentation of the financial schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles
As described in Note 1, the financial schedules are prepared from the transactions posted to the state's primary accounting system without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets, deferred outflows of resources, liabilities, deferred inflows of resources, and cash flows.

The effects on the financial schedules of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinions on U.S. Generally Accepted Accounting Principles
In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" paragraph, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the department as of June 30, 2018, and June 30, 2017, or changes in financial position or cash flows for the years then ended.

Basis for Qualified Opinions on Regulatory Basis of Accounting
The department did not record all internal service fund liabilities that existed as of June 30, 2017, for outstanding court settlements to be paid through the Risk Management and Tort Defense Division. As a result, ending Fund Equity reported in the Internal Service Fund column of the Schedule of Changes in Fund Equity & Property Held in Trust for the Fiscal Year Ended June 30, 2017, is overstated by approximately $10 million. The off-set to this error is in the budgeted expenditures and transfers-out line.

The department incorrectly recorded central payroll related activities in the Agency Fund in fiscal year 2018. As a result, ending Property Held in Trust in the Agency Fund column on the Schedule of Changes in Fund Equity & Property Held in Trust for the Fiscal Year Ended June 30, 2018, is overstated by approximately $17.3 million. The off-sets to this error are in the additions and reductions to Property Held in Trust lines.

Qualified Opinions on Regulatory Basis of Accounting
In our opinion, except for the effects of the matters described in the "Basis for Qualified Opinions" paragraph, the Schedules of Changes in Fund Equity & Property Held in Trust for the fiscal years ended June 30, 2018 and 2017, present fairly, in all material respects, the results of operations and changes in fund equity and property held in trust of the Department of Administration for each of the fiscal years ended June 30, 2018, and 2017, in conformity with the basis of accounting described in Note 1.

Unmodified Opinions on Regulatory Basis of Accounting
In our opinion, the Schedules of Total Revenues & Transfers-In and Schedules of Total Expenditures & Transfers-Out, present fairly, in all material respects, the results of operations of the Department of Administration for each of the fiscal years ended June 30, 2018, and 2017, in conformity with the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards
In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2018, on our consideration of the Department of Administration's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

October 12, 2018

DEPARTMENT OF ADMINISTRATION
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Private Purpose Trust Fund	Pension Trust Fund	Unexpended Plant Fund	Renewal & Replacement Fund
FUND EQUITY: July 1, 2017	$ 184,894,264	$ 25,393,396	$ (13,136)	$ 319,195	$ 40,952,695	$ 355,418	$ 56,455,705	$ 0	$ 363,569	$ 9,529,539	$ (3,140,858)	$ (148,651)
PROPERTY HELD IN TRUST: July 1, 2017								$ 2,797,854				
ADDITIONS												
Budgeted Revenues & Transfers-In	35,458,224	8,501,413	15,534,947		13,704,047	65,666,986	296,972,188					
Nonbudgeted Revenues & Transfers-In	69,784,304	8,053,976	7,653	13,088,954	250,937	130,493	(362,676)		1,385,866	4,069,935		
Prior Year Revenues & Transfers-In Adjustments	139,370	1,235,083	(2,096)		(197,372)	(18,764)	144,632					
Direct Entries to Fund Equity	169,802,015	37,178,874	709,573		7,741,867	772,634	5,658,322			4,052	40,895,158	2,003,603
Additions to Property Held in Trust								1,088,058,277				
Total Additions	275,183,912	54,969,346	16,250,078	13,088,954	21,499,479	66,551,349	302,412,466	1,088,058,277	1,385,866	4,073,987	40,895,158	2,003,603
REDUCTIONS												
Budgeted Expenditures & Transfers-Out	99,088,665	28,486,198	16,337,323		19,679,386	54,345,459	295,426,319				43,987,998	2,481,945
Nonbudgeted Expenditures & Transfers-Out	45,395,803	28,111,017	154,442	13,385,568	7,385,751	11,577,856	8,041,919		1,217,119	2,900,704		
Prior Year Expenditures & Transfers-Out Adjustments	642,713	1,376,463	9,904			(147,128)	3,444,493					
Reductions in Property Held in Trust								1,071,905,669				
Total Reductions	145,127,181	57,973,678	16,501,669	13,385,568	27,065,137	65,776,186	306,912,731	1,071,905,669	1,217,119	2,900,704	43,987,998	2,481,945
FUND EQUITY: June 30, 2018	$ 314,950,995	$ 22,389,063	$ (264,728)	$ 22,581	$ 35,387,038	$ 1,130,580	$ 51,955,440	$ 0	$ 532,315	$ 10,702,822	$ (6,233,697)	$ (626,993)
PROPERTY HELD IN TRUST: June 30, 2018								$ 18,950,461				

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF ADMINISTRATION
COMBINED SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Private Purpose Trust Fund	Pension Trust Fund	Unexpended Plant Fund	Renewal & Replacement Fund
FUND EQUITY: July 1, 2016	$ 404,793,926	$ 23,866,507	$ 25,714	$ 250,208	$ 61,669,412	$ 124,648	$ 37,784,781	$ 0	$ 305,040	$ 8,457,670	$ (2,738,826)	$ (299,104)
PROPERTY HELD IN TRUST: July 1, 2016								$ 4,538,865				
ADDITIONS												
Budgeted Revenues & Transfers-In	28,907,891	7,136,897	2,946,781		5,219,797	61,894,095	312,287,617					
Nonbudgeted Revenues & Transfers-In	1,658,147	3,535,341	66	16,066,383	204,805	157,167	572,989		1,690,866	4,025,310		
Prior Year Revenues & Transfers-In Adjustments	(52,212)	120,793	(6,337)			(660)	(633,172)				679,869	
Direct Entries to Fund Equity	(122,318,254)	19,612,289	1,704		5,587,322	41,000	117,804		69,323		25,957,617	2,474,802
Additions to Property Held in Trust								1,075,649,842				
Total Additions	(91,804,428)	30,405,320	2,942,213	16,066,383	11,011,924	62,091,603	312,345,237	1,075,649,842	1,760,189	4,025,310	26,637,486	2,474,802
REDUCTIONS												
Budgeted Expenditures & Transfers-Out	98,534,737	25,928,486	2,825,231		27,448,827	51,961,629	289,650,390				26,359,649	2,324,348
Nonbudgeted Expenditures & Transfers-Out	32,230,944	2,731,054	155,832	15,997,396	4,279,815	9,856,076	2,105,459		1,701,660	2,953,441		
Prior Year Expenditures & Transfers-Out Adjustments	(2,670,447)	218,892				43,127	1,918,466				679,869	
Reductions in Property Held in Trust								1,077,390,853				
Total Reductions	128,095,234	28,878,431	2,981,063	15,997,396	31,728,641	61,860,833	293,674,314	1,077,390,853	1,701,660	2,953,441	27,039,518	2,324,348
FUND EQUITY: June 30, 2017	$ 184,894,264	$ 25,393,396	$ (13,136)	$ 319,195	$ 40,952,695	$ 355,418	$ 56,455,705	$ 0	$ 363,569	$ 9,529,539	$ (3,140,858)	$ (148,651)
PROPERTY HELD IN TRUST: June 30, 2017								$ 2,797,854				

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF ADMINISTRATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Pension Trust Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS										
Licenses and Permits		$ 2,481,915				$ 11,425				$ 2,493,340
Taxes			$ 8							8
Charges for Services	$ 7,982,744	3,487,749			624,797	8,468,981	$ 283,943,293			304,507,563
Investment Earnings	12,568,161	86,356			297,699	37,240	766,948		$ 550,674	14,307,078
Fines and Forfeits	3,825,353					94,138				3,919,491
Capital Contributions						665,906	170,717			836,623
Sale of Documents, Merchandise and Property		221,754				56,381,487	3,794			56,607,035
Contributions and Premiums									3,518,807	3,518,807
Grants, Contracts, and Donations	10,000	217,234				42,537	451,327	$ 1,385,866	454	2,107,418
Transfers-in	80,482,113	9,548,164	267,730	$ 13,088,954	$ 12,835,116	74,209	77,658			116,373,943
Capital Asset Sale Proceeds	14,133									14,133
Miscellaneous	214,371	1,747,301				2,793	7,683,660			9,648,125
Federal	285,022		15,272,767				3,656,747			19,214,536
Total Revenues & Transfers-In	105,381,897	17,790,472	15,540,505	13,088,954	13,757,612	65,778,715	296,754,144	1,385,866	4,069,935	533,548,099
Less: Nonbudgeted Revenues & Transfers-In	69,784,304	8,053,976	7,653	13,088,954	250,937	130,493	(362,676)	1,385,866	4,069,935	96,409,441
Prior Year Revenues & Transfers-In Adjustments	139,370	1,235,083	(2,096)		(197,372)	(18,764)	144,632			1,300,853
Actual Budgeted Revenues & Transfers-In	35,458,224	8,501,413	15,534,947	0	13,704,047	65,666,986	296,972,188	0	0	435,837,805
Estimated Revenues & Transfers-In	34,375,074	10,895,013	19,474,832		59,666,625	64,656,401	285,703,567			474,771,512
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ 1,083,150	$ (2,393,600)	$ (3,939,886)	$ 0	$ (45,962,578)	$ 1,010,585	$ 11,268,621	$ 0	$ 0	$ (38,933,707)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS										
Licenses and Permits		$ 73,915				$ 425				$ 74,340
Taxes	$ (1)									(1)
Charges for Services	(1,689,998)	(8,753)			170,106	(309,373)	$ 3,186,436			1,348,417
Investment Earnings	4,990,380	(2,040)			76,282	24,221	678,959			5,767,802
Fines and Forfeits	(404,395)					(5,862)				(410,257)
Capital Contributions						51,181	(978)			50,203
Sale of Documents, Merchandise and Property		(28,246)				1,332,487				1,304,241
Rentals, Leases and Royalties	(23)						(1,000)			(1,023)
Grants, Contracts, and Donations		(12,766)								(12,766)
Transfers-in	(1,665,637)	(2,244,638)	$ (22,500)		$ (46,208,965)	(67,500)	(172,342)			(50,381,582)
Capital Asset Sale Proceeds	(17,868)									(17,868)
Miscellaneous	153,289	(171,071)				(14,994)	5,320,799			5,288,023
Federal	(282,598)		(3,917,386)				2,256,747			(1,943,236)
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ 1,083,150	$ (2,393,600)	$ (3,939,886)	$ 0	$ (45,962,578)	$ 1,010,585	$ 11,268,621	$ 0	$ 0	$ (38,933,707)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF ADMINISTRATION
COMBINED SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Pension Trust Fund	Unexpended Plant Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS											
Licenses and Permits		$ 1,537,775				$ 10,267					$ 1,548,042
Taxes			$ 67								67
Charges for Services	$ 7,498,738	3,330,320		$	$ 600,514	8,673,383	$ 304,566,937				324,669,893
Investment Earnings	7,428,852	91,337	4		228,991	20,364	424,216		$ 639,915		8,833,679
Fines and Forfeits	3,898,160					104,204	58,034				4,060,398
Monetary Settlements							566,325				566,325
Capital Contributions						629,260	130,629				759,888
Sale of Documents, Merchandise and Property		229,600				52,441,929	16,373				52,687,902
Rentals, Leases and Royalties							495				495
Contributions and Premiums									3,384,872		3,384,872
Grants, Contracts, and Donations		225,952				45,982	476,338	$ 1,690,866	523		2,439,661
Transfers-in	11,245,228	3,588,160	35,160	16,066,383	4,595,097	123,567	390,687			$ 679,869	36,724,150
Capital Asset Sale Proceeds	85,298						2,189				87,488
Miscellaneous	74,360	1,789,886				1,647	3,449,174				5,315,068
Federal	283,190		2,905,278				2,146,036				5,334,505
Total Revenues & Transfers-In	30,513,826	10,793,031	2,940,510	16,066,383	5,424,602	62,050,603	312,227,433	1,690,866	4,025,310	679,869	446,412,433
Less: Nonbudgeted Revenues & Transfers-In	1,658,147	3,535,341	66	16,066,383	204,805	157,167	572,989	1,690,866	4,025,310		27,911,074
Prior Year Revenues & Transfers-In Adjustments	(52,212)	120,793	(6,337)			(660)	(633,172)			679,869	108,280
Actual Budgeted Revenues & Transfers-In	28,907,891	7,136,897	2,946,781		5,219,797	61,894,095	312,287,617				418,393,078
Estimated Revenues & Transfers-In	47,349,973	9,647,714	18,750,291		4,479,229	69,304,346	331,359,562				480,891,115
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (18,442,082)	$ (2,510,817)	$ (15,803,510)	$	$ 740,568	$ (7,410,251)	$ (19,071,946)	$	$	$	$ (62,498,037)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS											
Licenses and Permits		$ 118,275				$ (4,733)					$ 113,542
Taxes	$ (1)										(1)
Charges for Services	(2,082,750)	21,008			$ 5,036	(2,748,543)	$ (21,392,914)				(26,198,162)
Investment Earnings	(13,393,074)	55,245	$ (395)		(1,189)	8,601	(139,590)				(13,470,402)
Fines and Forfeits	(395,182)					31,704					(363,478)
Monetary Settlements							408,325				408,325
Capital Contributions						(15,072)	2,571				(12,501)
Sale of Documents, Merchandise and Property		9,600				(4,658,071)					(4,648,471)
Rentals, Leases and Royalties	(23)						(505)				(528)
Grants, Contracts, and Donations		(4,048)									(4,048)
Transfers-in	(2,353,007)	(2,347,823)	(3,594)		736,721	(19,160)	(508,073)				(4,494,936)
Capital Asset Sale Proceeds	53,297					-	1,755				55,052
Miscellaneous	13,088	(363,074)				(4,977)	1,713,511				1,358,549
Federal	(284,430)		(15,799,521)				842,975				(15,240,977)
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (18,442,082)	$ (2,510,817)	$ (15,803,510)	$	$ 740,568	$ (7,410,251)	$ (19,071,946)	$	$	$	$ (62,498,037)

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DEPARTMENT OF ADMINISTRATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Architecture & Engineering Division	Corrections	Departments & Agencies	Director's Office	Division of Banking & Financial Institutions	DPHHS	General Services Division	Health Care & Benefits Division	Montana State Lottery	Montana Tax Appeal Board	Risk Management & Tort Defense Division	State Financial Services Division	State Human Resources Division	State IT Services Division	Univiersy System	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT																
Personal Services																
Salaries	$ 1,097,951	$	$	$ 1,971,716	$ 2,111,194	$	$ 3,277,012	$ 1,306,519	$ 1,616,771	$ 333,646	$ 1,145,789	$ 3,647,431	$ 2,793,755	$ 12,646,738	$	$ 31,948,523
Other Compensation				850					850	16,470						18,170
Employee Benefits	352,250			493,747	672,928		1,125,438	325,545	488,718	106,911	270,585	1,055,826	739,585	3,050,426		8,681,956
Personal Services-Other				32,657			12,315	5,194	5,483		12,142	20,600	15,803	5,769		109,963
Total	1,450,201			2,498,970	2,784,122		4,414,765	1,637,257	2,111,822	457,026	1,428,515	4,723,858	3,549,143	15,702,933		40,758,612
Operating Expenses																
Other Services	272,671			317,885	405,753		4,283,496	13,411,509	8,550,118	23,180	6,653,092	775,921	485,455	2,720,778		37,899,857
Supplies & Materials	20,670			55,471	94,487		447,200	31,771	219,183	3,428	38,759	170,889	140,241	16,398,625		17,620,722
Communications	24,877			44,716	55,714		4,247,494	88,569	738,266	15,195	23,388	318,036	47,698	7,056,637		12,660,590
Travel	27,651			13,608	225,462		10,951	13,583	35,210	8,026	32,501	35,949	16,914	172,179		592,034
Rent	67,577			93,875	170,315		296,364	441,240	224,302	47,886	93,039	133,454	150,298	983,275		2,701,624
Utilities							2,043,520		17,463					100,203		2,161,187
Repair & Maintenance	624			59,693			1,085,035	112	21,177		981	1,267,879	720,128	8,788,605		11,944,233
Other Expenses	107,672	90,000	229,810	269,209	179,885		1,687,866	692,915	32,968,380	17,451	403,309	3,644,870	162,780	4,526,591	163,908	45,144,647
Goods Purchased For Resale							2,500,686		899,909		3					3,400,598
Total	521,740	90,000	229,810	854,457	1,131,616		16,602,612	14,679,699	43,674,007	115,165	7,245,072	6,346,998	1,723,515	40,746,893	163,908	134,125,493
Equipment & Intangible Assets																
Equipment						25,643								235,720	1,167,632	1,428,995
Livestock															(721,772)	(721,772)
Total						25,643								235,720	445,860	707,223
Capital Outlay																
Land & Interest In Land						1,500										1,500
Buildings		1,160,109	6,199,597			3,957,566						56,206			53,204,617	64,578,095
Total		1,160,109	6,199,597			3,959,066						56,206			53,204,617	64,579,595
Local Assistance																
From State Sources				45,974,309						16,309						45,990,618
From Federal Sources				21,058,559												21,058,559
Total				67,032,868						16,309						67,049,177
Grants																
From State Sources														13,357,372		13,357,372
Grant To Governmental Entities											229,450					229,450
Total											229,450			13,357,372		13,586,822
Benefits & Claims																
To Individuals								261,897								261,897
From State Sources								186,574,623					257,040			186,831,663
Insurance Payments								27,455			13,413,031					13,440,486
Total								186,863,975			13,413,031		257,040			200,534,045
Transfers-out																
Fund transfers	1,930,523	166,542	10,581,949	99,539,902	600,000	26,304	228,629	124	10,699,363		45,258	3,049,434		8,987,365	89,124	135,944,517
Intra-Entity Expense				8,050,000												8,050,000
Total	1,930,523	166,542	10,581,949	107,589,902	600,000	26,304	228,629	124	10,699,363		45,258	3,049,434		8,987,365	89,124	143,994,517
Debt Service																
Bonds				13,092,743												13,092,743
Loans				75,303			34,525							12,226		122,054
Capital Leases							14,713							223,182		237,895
Total				13,168,046			49,237							235,408		13,452,691
Post Employment Benefits																
Other Post Employment Benefits				6,954			20,743	5,959	9,070		4,436	8,932	7,169	48,702		111,966
Employer Pension Expense				295,515			565,429	239,925	282,156		200,780	355,131	320,991	2,169,848		4,429,775
Total				302,469			586,172	245,884	291,226		205,216	364,063	328,160	2,218,550		4,541,741
Total Expenditures & Transfers-Out	$ 3,902,465	$ 1,416,651	$ 17,011,355	$ 191,446,711	$ 4,515,738	$ 4,011,013	$ 21,881,415	$ 203,426,939	$ 56,776,419	$ 588,500	$ 22,566,542	$ 14,540,559	$ 5,857,858	$ 81,484,241	$ 53,903,509	$ 683,329,916
EXPENDITURES & TRANSFERS-OUT BY FUND																
General Fund				$ 138,059,738						$ 588,500		$ 4,768,398	$ 1,401,411	$ 309,134		$ 145,127,181
State Special Revenue Fund	$ 1,971,941	$ 166,542	$ 4,532,461	21,670,325	$ 4,515,738	$ 33,785	$ 85,000		$ 180,787		$ 45,258	2,110,517		22,554,846	$ 106,479	57,973,678
Federal Special Revenue Fund			980,246	15,434,227								878		78,673	7,645	16,501,669
Debt Service Fund				13,385,568												13,385,568
Capital Projects Fund	1,930,523	2,373,109	11,320,514			3,977,228								310,139	7,153,623	27,065,137
Enterprise Fund		(62,705)	20,304				1,200,544	$ 7,214,454	56,595,632			807,957				65,776,186
Internal Service Fund		(1,060,295)	157,830	2,896,854			20,595,871	193,311,781			22,521,285	5,635,690	4,456,447	58,231,449	165,819	306,912,731
Private Purpose Trust Fund												1,217,119				1,217,119
Pension Trust Fund								2,900,704								2,900,704
Unexpended Plant Fund															43,987,998	43,987,998
Renewal & Replacement Fund															2,481,945	2,481,945
Total Expenditures & Transfers-Out	3,902,465	1,416,651	17,011,355	191,446,711	4,515,738	4,011,013	21,881,415	203,426,939	56,776,419	588,500	22,566,542	14,540,559	5,857,858	81,484,241	53,903,509	683,329,916
Less: Nonbudgeted Expenditures & Transfers-Out	1,930,523	(970,246)	7,444,994	74,936,315	600,000		883,296	3,177,278	10,921,456		(473,760)	4,282,952	205,929	15,231,442		118,170,178
Prior Year Expenditures & Transfers-Out Adjustments	(21,107)	(127,796)	(189,846)	597,072		(5,877)	72,708	45,665	359	1,452	99,369	(34,146)		4,888,593		5,326,445
Actual Budgeted Expenditures & Transfers-Out	1,993,048	2,514,693	9,756,208	115,913,325	3,915,738	4,016,891	20,925,411	200,203,996	45,854,604	587,048	22,940,934	10,291,753	5,651,929	61,364,206	53,903,509	559,833,292
Budget Authority	2,176,924	7,941,581	115,309,451	122,253,172	4,358,333	61,584,320	22,564,376	213,553,497	47,741,056	592,099	28,152,678	11,257,412	5,831,519	105,825,196	244,763,166	993,904,780
Unspent Budget Authority	$ 183,876	$ 5,426,888	$ 105,553,244	$ 6,339,848	$ 442,595	$ 57,567,429	$ 1,638,965	$ 13,349,501	$ 1,886,452	$ 5,051	$ 5,211,744	$ 965,659	$ 179,590	$ 44,460,990	$ 190,859,656	$ 434,071,488
UNSPENT BUDGET AUTHORITY BY FUND																
General Fund				$ 908,261						$ 5,051		$ 104,562	$ 13,734	$ 68,477	$	$ 1,100,085
State Special Revenue Fund	$ 183,876	361,644	36,515,756	2,410,850	$ 442,595	15,675,586			$ 19,213		$ 1,154,742	6,987		8,810,607	747,014	66,328,871
Federal Special Revenue Fund		1,000,000	6,904,919	2,902,826		10,635,407						709		32,303,966	2,216,926	55,964,753
Capital Projects Fund		3,005,361	62,130,365			31,256,437								841,902	16,078,445	113,312,510
Enterprise Fund		$ 426,883	$			$	$ 14,362	$ 582,316	1,867,239			7,216				2,898,015
Internal Service Fund		633,000	2,203	117,911			1,624,603	12,767,185			4,057,002	846,184	165,856	2,436,037	27,512	22,677,494
Unexpended Plant Fund															149,987,976	149,987,976
Renewal & Replacement Fund															21,801,784	21,801,784
Unspent Budget Authority	$ 183,876	$ 5,426,888	$ 105,553,244	$ 6,339,848	$ 442,595	$ 57,567,429	$ 1,638,965	$ 13,349,501	$ 1,886,452	$ 5,051	$ 5,211,744	$ 965,659	$ 179,590	$ 44,460,990	$ 190,859,656	$ 434,071,488

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DEPARTMENT OF ADMINISTRATION
COMBINED SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Architecture & Engineering Division	Banking & Financial Division	Corrections	Departments & Agencies	Director's Office	DPHHS	General Services Division	Governor-Elect Program	Health Care & Benefits Division	Information Technology Services Division	Montana State Lottery	Montana Tax Appeal Board	Risk Management & Tort Defense	State Financial Services Division	State Human Resources Division	University System	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT																	
Personal Services																	
Salaries	$ 1,292,279	$ 2,069,803			$ 864,578		$ 3,096,304		$ 1,157,464	$ 12,291,814	$ 1,624,451	$ 322,758	$ 830,728	$ 3,392,524	$ 3,061,007		$ 30,003,710
Other Compensation					400						1,000	7,611					9,011
Employee Benefits	402,958	707,039			546,167		1,124,362		313,639	3,120,562	522,441	111,912	296,119	1,037,865	881,300		9,064,366
Personal Services-Other					(6,961)		72,508		(9,685)	(12,049)	(34,456)		27,542	12,245	54,769		103,913
Total	1,695,237	2,776,842			1,404,183		4,293,174		1,461,418	15,400,327	2,113,436	442,281	1,154,389	4,442,634	3,997,077		39,181,000
Operating Expenses																	
Other Services	201,669	165,569	$	$	(197,662)		4,322,054		11,964,651	3,286,854	7,787,624	39,976	5,841,210	870,883	757,864	$	35,040,693
Supplies & Materials	16,719	44,855			66,176		338,717		30,886	4,931,137	244,358	8,120	24,618	196,023	425,510		6,327,118
Communications	23,712	45,285			41,622		4,386,751		88,190	7,345,217	746,104	23,817	20,513	309,489	42,500		13,073,201
Travel	37,921	274,664			16,854		9,937		19,419	195,713	42,722	13,199	19,659	41,406	55,261		726,756
Rent	68,206	165,075			82,370		1,902,778		457,170	1,478,817	200,005	46,051	79,340	127,460	142,721		4,749,994
Utilities					144		2,116,897			117,969	17,514		4,721				2,257,244
Repair & Maintenance	3,616	250			90,837		1,239,085		275	8,494,874	30,290		1,176	1,079,842	517,745		11,457,990
Other Expenses	133,909	174,812	159,676	9,417	131,932		1,894,197		1,160,860	2,735,085	30,937,246	26,227	481,914	3,788,412	268,717	249,343	42,151,744
Goods Purchased For Resale							3,037,566				1,017,788						4,055,353
Total	485,753	870,510	159,676	9,417	232,273		19,247,982		13,721,451	28,585,666	41,023,650	157,389	6,473,151	6,413,515	2,210,318	249,343	119,840,093
Equipment & Intangible Assets																	
Equipment											(57,768)					2,365,446	2,307,678
Intangible Assets					1,662,662								1,525,114				3,187,776
Total					1,662,662						(57,768)		1,525,114			2,365,446	5,495,454
Capital Outlay																	
Other Improvements											(39,012)						(39,012)
Buildings			746,027	3,459,514		$ 2,170,761										44,746,869	51,123,171
Total			746,027	3,459,514		2,170,761					(39,012)					44,746,869	51,084,159
Local Assistance																	
From State Sources					45,360,284							5,844					45,366,129
From Federal Sources					8,170,132												8,170,132
Total					53,530,416							5,844					53,536,261
Grants																	
From State Sources										10,983,221							10,983,221
Grant To Governmental Entities													126,804				126,804
Total										10,983,221			126,804				11,110,024
Benefits & Claims																	
To Individuals									232,586								232,586
From State Sources									181,335,385						173,208		181,508,593
Insurance Payments									(177,367)				20,435,088				20,257,721
Total									181,390,604				20,435,088		173,208		201,998,900
Transfers-out																	
Fund transfers	2,073,240		324,817	5,002,148	64,440,278	143,605	224,567		147,451	1,383,468	9,266,182		7,367	3,099,578		347,201	86,459,903
Intra-Entity Expense					9,100,000												9,100,000
Total	2,073,240		324,817	5,002,148	73,540,278	143,605	224,567		147,451	1,383,468	9,266,182		7,367	3,099,578		347,201	95,559,903
Debt Service																	
Bonds					15,455,563												15,455,563
Loans							38,023			111,565							149,588
Capital Leases							9,431			34,603							44,034
Total					15,455,563		47,454			146,168							15,649,185
Post Employment Benefits																	
Other Post Employment Benefits					71,193		188,100		55,667	456,586	88,983		46,289	84,845	69,802		1,061,465
Employer Pension Expense					192,913		331,847		140,143	1,316,711	179,560		127,623	229,021	200,618		2,718,436
Total					264,106		519,947		195,810	1,773,297	268,543		173,912	313,866	270,420		3,779,901
Total Expenditures & Transfers-Out	$ 4,254,230	$ 3,647,352	$ 1,230,520	$ 8,471,079	$ 146,089,481	$ 2,314,366	$ 24,333,124	$ 0	$ 196,916,734	$ 58,272,147	$ 52,575,031	$ 605,515	$ 29,895,826	$ 14,269,594	$ 6,651,022	$ 47,708,859	$ 597,234,880
EXPENDITURES & TRANSFERS-OUT BY FUND																	
General Fund			150,000	47,392	$ 118,409,061	65,000	$ 1,681,400			$ 359,247		$ 605,515		$ 4,965,180	$ 1,812,440		$ 128,095,234
State Special Revenue Fund	$ 2,180,991	$ 3,647,352	193,414	2,320,570	5,793,227	209,890	85,000			12,505,404	$ 191,778		$ 7,367	1,636,623		106,815	28,878,431
Federal Special Revenue Fund				45,508	2,602,667					124,162				1,641		207,086	2,981,063
Debt Service Fund					15,997,396												15,997,396
Capital Projects Fund	2,073,240		800,562	5,939,193	388,900	2,039,476				2,705,521						17,781,749	31,728,641
Enterprise Fund			90,000	59,000			1,175,514		$ 7,358,532		52,383,253			794,533			61,860,833
Internal Service Fund			(3,457)	59,417	2,898,230		21,391,211		186,604,761	42,577,813			29,888,459	5,169,956	4,838,582	249,343	293,674,314
Private Purpose Trust Fund														1,701,660			1,701,660
Pension Trust Fund									2,953,441								2,953,441
Unexpended Plant Fund																27,039,518	27,039,518
Renewal & Replacement Fund																2,324,348	2,324,348
Total Expenditures & Transfers-Out	4,254,230	3,647,352	1,230,520	8,471,079	146,089,481	2,314,366	24,333,124	0	196,916,734	58,272,147	52,575,031	605,515	29,895,826	14,269,594	6,651,022	47,708,859	597,234,880
Less: Nonbudgeted Expenditures & Transfers-Out	2,072,618	(1,244)	(52,803)	2,206,575	48,499,741		1,160,491		3,096,306	1,306,180	9,084,606	(178)	723,206	3,741,933	174,246		72,011,676
Prior Year Expenditures & Transfers-Out Adjustments	(5,088)	223		671,506	(2,672,242)		(27,633)		(44,009)	248,319	42,189	554	1,598,283	52,422	325,381		189,907
Actual Budgeted Expenditures & Transfers-Out	2,186,700	3,648,373	1,283,323	5,592,998	100,261,982	2,314,366	23,200,266	0	193,864,438	56,717,648	43,448,236	605,138	27,574,336	10,475,238	6,151,395	47,708,859	525,033,297
Budget Authority	2,271,011	4,625,580	8,335,250	129,094,752	125,125,106	65,877,383	24,402,921	$ 50,000	201,000,859	97,411,396	45,943,164	755,301	44,203,841	11,868,740	6,263,057	288,258,863	1,055,487,223
Unspent Budget Authority	$ 84,310	$ 977,207	$ 7,051,927	$ 123,501,754	$ 24,863,124	$ 63,563,017	$ 1,202,655	$ 50,000	$ 7,136,422	$ 40,693,748	$ 2,494,928	$ 150,163	$ 16,629,505	$ 1,393,501	$ 111,662	$ 240,550,004	$ 530,453,926
UNSPENT BUDGET AUTHORITY BY FUND																	
General Fund					$ 6,355,138		$ 4,785	$ 50,000		$ 29,453		$ 150,163		$ 1,321,417	$ 500		$ 7,911,456
State Special Revenue Fund	$ 84,310	$ 977,207	378,186	43,461,982	2,470,481	15,716,224				3,959,273	$ 28,222		$ 1,192,633	1,072		$ 853,493	69,123,082
Federal Special Revenue Fund			1,000,000	7,885,165	15,738,876	10,635,407				33,219,082				254		2,216,926	70,695,710
Capital Projects Fund			4,613,858	72,000,331		37,211,387				1,690,366						23,105,375	138,621,317
Enterprise Fund			426,883				73,281		$ 499,146		2,466,706			736			3,466,752
Internal Service Fund			633,000	154,276	298,630		1,124,589		6,637,275	1,795,575			15,436,872	70,022	111,162	173,331	26,434,732
Unexpended Plant Fund																192,890,289	192,890,289
Renewal & Replacement Fund																21,310,589	21,310,589
Unspent Budget Authority	$ 84,310	$ 977,207	$ 7,051,927	$ 123,501,754	$ 24,863,124	$ 63,563,017	$ 1,202,655	$ 50,000	$ 7,136,422	$ 40,693,748	$ 2,494,928	$ 150,163	$ 16,629,505	$ 1,393,501	$ 111,662	$ 240,550,004	$ 530,453,926

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

Department of Administration
Notes to the Financial Schedules
For the Two Fiscal Years Ended June 30, 2018

1. Summary of Significant Accounting Policies

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, Capital Projects, Debt Service). In applying the modified accrual basis, the department records:

- Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual and sick leave when used or paid.

The department uses accrual basis accounting for its Proprietary (Enterprise and Internal Service) and Fiduciary (Private-Purpose Trust, Pension and Other Employee Benefit Trust, Agency) and Plant fund categories. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules were prepared from the transactions posted to the state's accounting system without adjustment. Consequently, these schedules do not agree in all cases to final state accounting system summary reports.

To reflect the total department operations, the financial schedules present the combined operations of two separate business units, Department of Administration and Long-Range Building, identified on the state's accounting system.

The department uses the following funds:

Governmental Fund Category

- **General Fund** – to account for all financial resources except those required to be accounted for in another fund.
- **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. Department State Special Revenue Funds include Architecture and Engineering Construction, Banking and Financial Institutions Division, 911 Telecommunications Program, and Mineral Impact.
- **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include Federal Forest Reserve and Taylor Grazing Act funds.
- **Debt Service Fund** – to account for accumulated resources for the payment of general long-term debt principal and interest. The department uses this fund primarily for the Long-Range Building Program.
- **Capital Projects Fund** – to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds. The department uses this fund to account for activity in the Long-Range Building Program and for Long-Range Information Technology projects.

Proprietary Fund Category

- **Internal Service Fund** – to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. The department administers thirteen Internal Service Funds, the three largest of which are State Information Technology Services Division, Group Benefits, and Agency Insurance.
- **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. Department Enterprise Funds include Flexible Spending, Local Government Services, State Lottery, and Surplus Property.

Fiduciary Fund Category

- **Pension and Other Employee Benefit Trust Funds** – to account for resources required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other post-employment benefit plans, or other employee benefit plans. Department pension trust funds include the Voluntary Employee Beneficiary Association Trust.
- **Private-Purpose Trust Fund** – to account for activity of any trust arrangement not properly reported in a pension fund or an investment trust fund where the principal and income benefit individuals, private organizations, or other governments. Department private-purpose trust funds include Stale-Dated Warrants.
- **Agency Fund** – to account for resources held by the state in a custodial capacity. Agency funds may be used on a limited basis for internal (to the State) clearing account activity but these must have a zero balance at fiscal year-end. Central Payroll is a department agency fund.

Plant Fund Category

- **Plant Funds** – to account for transactions related to construction of university properties. Because the Architecture and Engineering Division expends funds for university construction projects, the department records activity in the following sub-funds:
    - **Unexpended Plant Funds** – comprised of amounts which have been appropriated or designated for construction or purchase of university improvements, buildings, and equipment.
    - R**enewal and Replacement Funds** – provide resources for the remodeling or replacement of university properties.

2. General Fund Equity Balance

The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department's total assets placed in the fund exceed outstanding liabilities, resulting in positive ending fund equity balances for each of the fiscal years ended June 30, 2017, and June 30, 2018. As stated in note 3, the department is the administrator of the General Fund. As a result, the cash balances in the General Fund at fiscal year-end for all other state agencies are closed and recorded on the department's accounting records.

3. Direct Entries to Fund Equity

Direct entries to fund equity include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

Though the department is the administrator of the General Fund, it is not the only agency making entries to the General Fund. The direct entry to fund equity in the amount of -$122,318,254 in FY 2017 and $169,802,015 in FY 2018 reflects the department closing cash balances of other agencies sharing the General Fund. The General Fund's fund equity balances shown on the Schedule of Changes in Fund Balances and Property Held in Trust reflect only the department's activity and not the total fund equity of the state's General Fund.

Direct entries to fund equity in the Internal Service funds are predominantly due to the accounting changes regarding other postemployment benefits (OPEB) in the implementation of GASB Statement 75 which was effective for FY 2018.

4. Related-Party Transactions

The Department of Administration, Health Care and Benefits Division was an associate member of the Montana Association of Health Care Purchasers (MAHCP) from January 1, 2016 until December 31, 2016, which did not provide a seat on the board or require a membership fee. The Department paid $0.71 per script for participation in the URx pharmacy program through MAHCP, which included the Ask-A-Pharmacist Program. Effective January 1, 2017, the State contracted directly with another provider for the pharmacy program, discontinuing membership with MAHCP.

5. Unspent Budget Authority

The Schedule of Total Expenditures and Transfers Out for FY 2017 and FY 2018 reflects that Corrections, Departments & Agencies, DPHHS, and University System have material unspent budget authority related to active projects administered by the Long-Range Building Program. The entire estimated cost of a project is encumbered when the project is started, although many projects are not completed in one fiscal year, resulting in unspent budget authority amounts on the schedule. The unspent budget amounts represent estimated costs to complete all projects.

Similarly, the Information Technology Services Division had material unspent budget authority in both years for Long-Range IT Projects which were not completed.

There are some capital building projects where budget authority will be reported twice. For example, where authority is necessary for the fund transfer from one fund into another fund, and authority is also necessary for the expenditure of those funds received. The department follows M.O.M. 302XV for these projects costing more than $500,000.

Material unspent budget authority in FY 2017 for the Director's Office is primarily due to reduced Federal funding for the Secure Rural Schools (Forest Reserve) program, which was not reauthorized until FY 2018.

Material unspent budget authority in FY 2017 for Risk Management Tort Defense is due to an anticipated settlement that was not finalized until the next year.

Material unspent budget authority in FY 2018 for Healthcare and Benefits Division is due to cost savings in both the medical and pharmacy plans, as well as a decline in membership.

6. Transfer Activity

As the State Treasurer, the Department statutorily transfers a significant amount of money from, and to, the General Fund. These transfers involve other funds within state government.

Transfers-Out

The General Fund transfers out activity includes moving funds to the Department's debt service funds for general obligation bonds; state contributions to the Montana Public Employees Retirement System; Department of Natural Resource and Conservation's fire, water adjudication and sage grouse stewardship funds; motor vehicle revenue to various state agencies; and the Old Fund administered by the Montana State Fund.

The total General Fund transfers out in the Director's Office was $72,445,904 in FY 2017 and $91,347,550 in FY 2018. The increase is primarily due to an increased transfer to the Fire Suppression account from $11,422,262 in FY 2017 to $25,309,088 in FY 2018.

The Director's Office, acting as State Treasurer, initiated multiple transfers out of the State Special Revenue Fund on behalf of the Department of Commerce.

- SB 261, HB 642 and HB 650 from the 2017 Legislative Session required multiple transfers in FY 2018 totaling $2,680,552.
- HB 6 from the November 2017 Special Legislative Session required multiple transfers in FY 2018 totaling $13,110,000.

Transfers-In

SB 261 from the 2017 Legislative Session required the Department of Natural Resource and Conservation to transfer $30 million from the Fire Suppression account to the General Fund in FY 2018. Other bills from that session required multiple transfers from various funds into the General Fund totaling $8,368,045 in FY 2018.

HB 6 from the November 2017 Special Legislative Session required multiple transfers from various funds into the General Fund. The total amount of these transfers into the General Fund for FY 2018 was $29,427,926.

The Montana Lottery, which is attached to the Department of Administration, transfers net profits to the General Fund. The transfer amount was $9,266,182 in FY 2017 and $10,699,363 in FY 2018.

7. Reorganization

There were no significant reorganizations during the audit period.

8. Revenues Under Estimate

On the FY 2017 Schedule of Total Revenues & Transfers-In, revenues were received less than estimated in the Federal Special Revenue Fund due to reduced Federal funding for the Secure Rural Schools (Forest Reserve) program, which was not reauthorized until FY 2018. Revenues were also received less than estimated in the Internal Service Fund due to a decrease in billing for the medical and pharmacy plans.

On the FY 2018 Schedule of Total Revenues & Transfers-In, revenues were received less than estimated in the Capital Projects Fund because revenue in this fund is estimated biennially. Unrealized revenue estimates from the first year of the biennium are carried over to the second year.

9. Agency Fund - Property Held in Trust

On the Schedule of Changes in Fund Equity & Property Held in Trust, the Property Held in Trust balance is overstated by $17,297,358 at the end of FY 2018 due to an accounting error. The Agency Fund is the Department's Payroll Fund, which is a holding account for all payroll disbursements for the state. The root cause of the error was not using the appropriate journal date in recording the payment to the employees for the payroll cycle that occurred during the fiscal year end cutoff period.

10. Schedule of Total Expenditures & Transfers-Out

The Information Technology Services Division expenditures in Supplies and Materials reflect a $11.4 million increase from FY 2017 to FY 2018. This is due to changes in accounting for non-capital lease agreements and the terms of a licensing agreement and not due to changes in ITSD programs or operations.

11. University System Funds

The Unexpended Plant Fund and Renewal & Replacement Fund categories show negative ending fund balances for the department in the FY 2017 and FY 2018 Schedule of Changes in Fund Balances and Property Held in Trust due to the sharing of the related funds with the University System. The negative balance reflects only the department's activity, and not the total fund equity or activity for these shared funds.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Schedules Performed in Accordance with *Government Auditing Standards*

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedules of Changes in Fund Equity & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Administration for each of the fiscal years ended June 30, 2018, and 2017, and the related notes to the financial schedules, and have issued our report thereon dated October 12, 2018. Our report includes qualified opinions on the Schedules of Changes in Fund Equity & Property Held in Trust for the fiscal years ended June 30, 2018, and 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the Department of Administration's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control. Accordingly, we do not express an opinion on the effectiveness of the department's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Phone (406) 444-3122 • FAX (406) 444-9784 • E-Mail lad@mt.gov

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the department's financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination on financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

October 12, 2018

Department of Administration

Department Response

Department of
ADMINISTRATION
MONTANA

MONTANA DEPARTMENT OF ADMINISTRATION

"the backbone of state government"

Director's Office

Steve Bullock, Governor • John Lewis, Director

November 16, 2018

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LEGISLATIVE AUDIT DIV.

Angus Maciver, Legislative Auditor
Legislative Audit Division
PO Box 201705
Helena, MT 59620

RE: Financial Compliance Audit #18-13: Department of Administration for the Two Fiscal Years Ended June 30, 2018

Dear Mr. Maciver,

The Department of Administration (DOA) has reviewed the Financial Compliance Audit for the two fiscal years ending June 30, 2018.

Thank you to you and your staff for your work and professionalism during this audit. We view the audit process as an opportunity to improve the department's operation and performance.

Our responses to the recommendations are as follows:

***Recommendation #1** – We recommend the Department of Administration:*

Record additions and reductions to property held in trust associated with central payroll in the correct fiscal year.

Department Response: Concur

Central Payroll has taken the step to correct the error. Currently one employee reviews the work of the individual who initiates the document. Central Payroll will have two employees review the entry on fiscal year end payments to ensure accuracy. The Fiscal Year 2018 overstatement of Property Held in Trust was corrected in FY 2019. (Journal #0004005653)

***Recommendation #2** – We recommend the Department of Administration:*

Comply with state accounting policy by recording expenditure accruals for the Risk Management and Tort Defense Division for settlements unpaid at year-end.

125 North Roberts • Room 155 • Mitchell Building • P.O. Box 200101 • Helena, MT • 59620-0101
Phone (406) 444-2032 • Fax (406) 444-6194 • doadirector@mt.gov • http://doa.mt.gov

Department Response: Concur

As noted in the audit report, the Libby settlement agreement was structured to allow for partial payment upfront and a deferred and final payment within a year. This was an exception to the way other settlements have been structured historically. The Risk Management and Tort Defense Division will accrue future settlements of this nature on a full accrual basis in accordance with Montana Operations Manual (MOM) Accounting Policy 302. Procedures are updated.

***Recommendation #3** – We recommend the Department of Administration:*

Comply with state accounting policy and generally accepted accounting principles by not recording revenues and expenses for contribution discounts at Health Care and Benefits Division.

Department Response: Do Not Concur

DOA offers a Wellness Incentive Program to encourage healthy behavior and, in turn, improve health plan claims experience. Members and qualifying spouses may earn up to $30 per month through the completion of three separate incentive requirements. The incentive amounts vary for each requirement completed. The department has opted to provide this incentive award via a reduction in the monthly benefit plan contribution. Incentive award amounts vary up to a maximum of $60 per month when an employee and covered spouse or domestic/partner complete all incentive activities.

The Wellness Incentive Program awards totaled $3,584,305 and $3,393,255 in fiscal years 2017 and 2018, respectively. As noted above, offering this Wellness Incentive Program to the plan members provides important benefits but there is an associated cost to the plan, whether offered through prizes or a reduction in monthly contributions paid. DOA believes the referenced generally accepted accounting principles are not clear regarding this specific situation. DOA completes monthly journal entries to recognize the revenue earned and the related expense of providing the incentive award as these health plan contributions are received and the award granted. DOA is recording activity accurately as outlined in 17-1-102(2), MCA, which states that DOA shall prescribe and install a uniform accounting and reporting system for all state agencies and institutions showing the receipt, use and disposition of all public money and property in accordance with generally accepted accounting principles.

DOA's goal to provide all levels of management with the complete financial information needed for the decision-making process. Reporting the cost of the incentive activities as explained in this response is consistent with this goal. In the interest of full transparency, this activity should be recorded in full. DOA believes it would be misleading to the legislature and the readers of the financial reports to not record this activity in its entirety.

The audit report also references the costs associated with the member health screening already being recorded on the state's accounting records. One of the incentive requirements is to obtain a health screening by the Montana Health Center. The cost of the staffing and lab analysis to complete the health screening is included as part of the Montana Health Center operating costs.

The Wellness Program Incentive offered to members for completing required wellness activities is a separate and distinct cost from that of administering member health screening.

Recommendation #4 *– We recommend the Department of Administration:*

Comply with state policy by re-classifying expenditures as part of capitalizing of an asset only when the costs of acquiring the asset are on the department's accounting records.

Department Response: Concur

DOA and Department of Revenue (DOR) worked together to move the FY 2017 GenTax Upgrade from the DOA accounting records to the DOR accounting records. (DOA Journal #0004006770)

Future upgrades will be handled solely by the DOR when it is granted the spending authority.

Recommendation #5 *– We recommend the Department of Administration:*

We recommend the Department of Administration enhance internal control procedures to ensure money appropriated for long-range information technology capital projects is spent only on approved projects.

Department Response: Concur

The State CIO oversees and reports HB 10 Long Range Information Technology Projects status to the Legislative Finance Committee on a quarterly basis, which includes financial reporting and an earned value evaluation on each project.

There was no HB 10 funding allocated during the 2017 Legislative session.

However, during FY 2017, the State Information Technology Services Division (SITSD) started including language in agency MOU's requiring quarterly reporting and closeout data for HB 10 delegated projects.

The SITSD Chief Financial Officer will continue to build on this reporting process.

Recommendation #6 *– We recommend the Department of Administration:*

Comply with 15-1-122(1), MCA, by:

A. Updating the spreadsheet used to calculate the amount of the annual transfer from the General Fund to the Adoption Services Account.

B. Transferring $105,529 from the General Fund to the Adoption Services Account to correct the error in the transfers for fiscal years 2017 and 2018.

Department Response: <u>Concur</u>

A. The spreadsheet that tracks the Adoption Services Account transfers has been updated for the 2019 Biennium.

B. This oversight was corrected during FY 2019, with the correction transferred as a prior-period adjustment. (DOA journal #0003991371)

***Recommendation** #7 – We recommend the Department of Administration:*

Comply with term contract provisions for temporary employees.

Department Response: <u>Concur</u>

Additional internal controls were put in place effective October 15, 2018 to ensure temporary workers do not exceed the 480-hour limit.

A 'contingent worker' request form must be submitted to the DOA Human Resource (HR) Office informing the human resources staff a temporary worker has been hired and informing hiring managers of the 480-hour limit.

The temporary service contractors are required to notify the Contract Liaison (State Procurement Bureau), Hiring Manager, and Hiring Agency Human Resources (DOA HR Manager) when a worker reaches 360 hours worked. This new requirement was included in the new contract (#SPB19-0142T) being put in place prior to November 1, 2018.

Also, the modified FTE related to this new scanning service in General Services Division was approved by the Office of Budget and Program Planning on October 4, 2018.

We look forward to acting on the recommendations with which we concur and appreciate your consideration of our comments.

Sincerely,

John Lewis, Director

c: Mark Bruno, Financial Manager
Cheryl Gray, Administrator

Enclosures - Corrective Action Plan

Department of Administration
Corrective Action Plan (CAP): Audit Report #18-13
Financial Compliance Audit for the Two Fiscal Years Ended June 30, 2018
November 16, 2018

Agency	Recommendation #	Does this affect a federal program?	CFDA # (if previous YES)	Management View	CAP – Corrective Action Plan	Person responsible for CAP	Target Date
61010	**Recommendation #1** We recommend the Department of Administration record additions and reductions to property held in trust associated with central payroll in the correct fiscal year.	No	N/A	Concur	Central Payroll has taken the step to correct the error. Currently one employee reviews the work of the individual who initiates the document. Central Payroll will have two employees review the entry on fiscal year end payments to ensure accuracy. The Fiscal Year 2018 overstatement of Property Held in Trust was corrected in FY 2019. (DOA Journal #0004005653)	Anjenette Schafer, Administrator, State Human Resource Division	Completed
61010	**Recommendation #2** We recommend the Department of Administration comply with state accounting policy by recording expenditure accruals for the Risk Management and Tort Defense Division for settlements unpaid at year-end.	No	N/A	Concur	As noted in the audit report, the Libby settlement agreement was structured to allow for partial payment upfront and a deferred and final payment within a year. This was an exception to the way other settlements have been structured historically. The Risk Management and Tort Defense Division will accrue future	Brett Dahl, Administrator, Risk Management and Tort Defense Division	Completed

Department of Administration
Corrective Action Plan (CAP): Audit Report #18-13
Financial Compliance Audit for the Two Fiscal Years Ended June 30, 2018
November 16, 2018

Agency	Recommendation #	Does this affect a federal program?	CFDA # (if previous YES)	Management View	CAP – Corrective Action Plan	Person responsible for CAP	Target Date
					settlements of this nature on a full accrual basis in accordance with Montana Operations Manual (MOM) Accounting Policy 302. Procedures are updated.		
61010	**Recommendation #3** We recommend the Department of Administration comply with state accounting policy and generally accepted accounting principles by not recording revenues and expenses for contribution discounts at Health Care and Benefits Division.	No	N/A	Do Not Concur	N/A	N/A	N/A
61010	**Recommendation #4** We recommend the Department of Administration comply with state policy by re-classifying expenditures as part of capitalizing of an asset only when the costs of acquiring the asset are on the department's accounting records.	No	N/A	Concur	The Department of Administration (DOA) and Department of Revenue (DOR) worked together to move the FY 2017 GenTax Upgrade from the DOA accounting records to the DOR accounting records. (DOA Journal #0004006770) Future upgrades will be handled solely by the DOR when it is granted the spending authority.	Mark Bruno, Financial Manager, Director's Office	Completed

Department of Administration
Corrective Action Plan (CAP): Audit Report #18-13
Financial Compliance Audit for the Two Fiscal Years Ended June 30, 2018
November 16, 2018

Agency	Recommendation #	Does this affect a federal program?	CFDA # (if previous YES)	Management View	CAP – Corrective Action Plan	Person responsible for CAP	Target Date
61010	**Recommendation #5** We recommend the Department of Administration enhance internal control procedures to ensure money appropriated for long-range information technology capital projects is spent only on approved projects.	No	N/A	Concur	The State CIO oversees and reports HB 10 Long Range Information Technology Projects status to the Legislative Finance Committee on a quarterly basis, which includes financial reporting and an earned value evaluation on each project. There was no HB 10 funding allocated during the 2017 Legislative session. However, during FY 2017, the State Information Technology Services Division (SITSD) started including language in agency MOU's requiring quarterly reporting and closeout data for HB 10 delegated projects. The SITSD Chief Financial Officer will continue to build on this reporting process.	April Grady, Chief Financial Officer, State Information Technology Services Division	04/01/2019

Department of Administration
Corrective Action Plan (CAP): Audit Report #18-13
Financial Compliance Audit for the Two Fiscal Years Ended June 30, 2018
November 16, 2018

Agency	Recommendation #	Does this affect a federal program?	CFDA # (if previous YES)	Management View	CAP – Corrective Action Plan	Person responsible for CAP	Target Date
61010	**Recommendation #6** We recommend the Department of Administration comply with 15-1-122(1), MCA, by:	No	N/A			Mark Bruno, Financial Manager, Director's Office	
	A. Updating the spreadsheet used to calculate the amount of the annual transfer from the General Fund to the Adoption Services Account.			Concur	A) The spreadsheet that tracks the Adoption Services Account transfers has been updated for the 2019 Biennium.		Completed
	B. Transferring $105,529 from the General Fund to the Adoption Services Account to correct the error in the transfers for fiscal years 2017 and 2018.			Concur	B) This oversight was corrected during FY 2019, with the correction transferred as a prior-period adjustment. (DOA Journal #0003991371)		Completed

Department of Administration
Corrective Action Plan (CAP): Audit Report #18-13
Financial Compliance Audit for the Two Fiscal Years Ended June 30, 2018
November 16, 2018

Agency	Recommendation #	Does this affect a federal program?	CFDA # (if previous YES)	Management View	CAP – Corrective Action Plan	Person responsible for CAP	Target Date
61010	**Recommendation #7** We recommend the Department of Administration comply with term contract provisions for temporary employees.	No	N/A	Concur	Additional internal controls were put in place effective October 15, 2018 to ensure temporary workers do not exceed the 480-hour limit. A 'contingent worker' request form must be submitted to the DOA Human Resource Office informing the human resources staff a temporary worker has been hired and informing hiring managers of the 480 hour limit. The temporary service contractors are required to notify the Contract Liaison (State Procurement Bureau), Hiring Manager, and Hiring Agency Human Resources (DOA HR Manager) when a worker reaches 360 hours worked. This new requirement was included in the new contract (#SPB19-0142T). Also, the modified FTE related to this new scanning service in General Services Division was approved by the Office of Budget and Program Planning on October 4, 2018.	Yvette Englert, Human Resource Manager, Director's Office	Completed